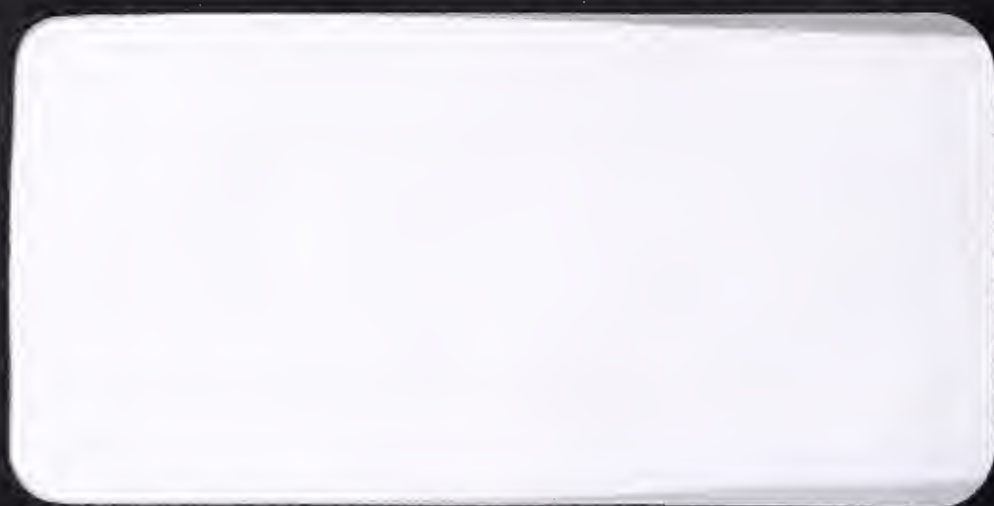


**STUDY OF
ALTERNATE
DISTRIBUTION
CHANNELS**

INPUT



STUDY OF ALTERNATE DISTRIBUTION CHANNELS

INPUT[®]

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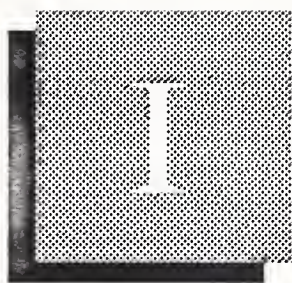
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Introduction

I. Introduction

A

Purpose of Study

INPUT has been engaged by Litton Computer Services (LCS) to undertake a brief study of alternate distribution channels for the current range of data processing and network services offered by LCS. INPUT was asked to identify alternative channels, to prequalify them, and to offer recommendations to LCS as to how it might proceed to further evaluate or initiate marketing activities.

B

Scope

LCS desires to expand its sales geographically, utilizing alternate distribution channels rather than expand the current one or incur heavy investment in a new one.

LCS has four classes of products which are distributed through its own direct sales force.

- *Timesharing Services* - general, developmental environments, and third party software utilities.
- *Dedicated Machine Environment (DME)* - an innovative packaging of LCS services as an alternative to in-house computing.
- *Remote Facilities Management* - dedicated equipment on customer sites managed by LCS.
- *Integrated Financial Application Services* - MSA, McCormick and Dodge, and Litton Common Information System Application packages that are utilized in a shared environment on LCS computers.

The first three represent different delivery modes or packaging of LCS's expertise to efficiently manage IBM computers, the associated operating systems and software, and the required communication technologies.

C

Methodology

Four steps were required to complete this study.

- *Evaluation of LCS's Current Products, Distribution Methods and Customer Base* - INPUT was able to rapidly learn about LCS's business by studying a range of information and marketing material which LCS provided. In addition, LCS clarified various issues through a series of telephone interviews.

- *Competitive Analysis* - After compiling a list of competitors, including names provided by LCS and others identified by researching INPUT's vendor files, INPUT undertook a focused competitive analysis. This study was intended to learn how LCS competitors distribute their products or services and to identify any innovative distribution methods employed by LCS competitors.
- *Alternate Channel Identification* - INPUT convened a meeting of its senior professionals with broad experience and exposure to the computer services industry. They were asked to propose a range of new distribution channels or new marketing approaches for LCS products and services.
- *Qualification of Channel Options* - Using a standard quantitative rating methodology, INPUT evaluated each proposed channel alternative. This qualification process attempted to ascertain how well each alternate channel might fit with LCS's growth strategy. It also sought to determine which LCS capabilities might be most important. In addition, INPUT gathered brief subjective responses about each channel alternative.

D

Summary of Findings

1. LCS Information Systems

LCS Information Systems (IS) business has experienced rapid growth despite the lack of a proprietary product. Commercial growth has risen from \$6 million to \$40 million in the last few years.

EXHIBIT I-1

Factors Contributing to LCS Revenue Growth

- Responsiveness to Client Needs
- Retention of Large Customers
- Strength of Technical Staff
- Computer Operation Capabilities
- Networking Capabilities
- Highly Referenceable Customer Base

LCS offers four distinct products to commercial users through its information systems (IS) business. LCS is investigating marketing alternatives for these products to expand sales in new geographical areas to new clients.

2. Competition

Some general observations have been concluded from the LCS competitive analysis.

EXHIBIT I-2

General Observations about Competitors

- Competitors Could Offer DME Product
- Very Little Competitive Differentiation
- Few Alternate Channels Employed
- Mature Market with Little Innovation
- LCS Holds Midrange Position in Market

- *Competitors Could Offer DME Product* - DME product is a repackaging of timesharing capabilities. Many competitors in the timesharing product area have resources to support a DME type product.
- *Very Little Competitive Differentiation* - The majority of LCS competitors market the same types of processing services products. There is little distinction between marketing focus of these competitors.
- *Few Alternate Channels Employed* - The majority of competitors sales efforts are accomplished through direct marketing channels. A few companies utilize indirect channels and dealers.
- *Mature Market with Little Innovation* - Processing services is a 20-year-old market. Most corporations that are interested in using this delivery mode are already doing so. As a result, it represents a slow-growth market environment.
- *LCS Holds Midrange Position in Market* - Revenues of LCS competitors range from \$4.5 billion to \$9 million. Competitive firms represent diversified corporations that market products worldwide as opposed to small companies that concentrate in specific regions of the U.S. LCS occupies a midrange position in all demographic aspects of comparison to its competitors.

3. Alternate Channel Options

INPUT has identified 13 alternate channels which fall into three groupings of distribution channels.

- *Members of the Computer Industry* - Organizations participating in one or more aspects of the computer industry. They understand computer technology and have credibility/experience with IBM hardware or software.

- *Users/Distributors of Computer Services* - Organizations that rely on automation to provide their products or services. They are reasonably credible to the organizations which LCS desires to serve.
- *Well-Positioned Resources* - Organizations that have access to and active dealings with potential users of LCS services. The people either make frequent sales calls or have other reasons to be dealing with management of the target organization.

EXHIBIT I-3

Summary of Alternate Channel Categories

Members of Computer Industry	5
Users/Distributors of Computer Services	3
Well-Positioned Resources	5
Total	13

INPUT devised a methodology to rate the proposed channel options in two ways.

- *Suitability to LCS Strategy* - Evaluation of how well the proposed channel will complement LCS's capabilities and fit with the LCS business priorities.
- *Importance of LCS Capabilities to the Potential Customer* - An assessment of the needs of the potential customer, and how well LCS's capabilities satisfy those needs.

Two channels stand out as particularly well suited for LCS to pursue.

- Retired IBM Sales People
- DP Professional Service Companies

However, INPUT believes that each of the remaining channels has merit, and many can be pursued with little investment by LCS.

4. Additional Observations

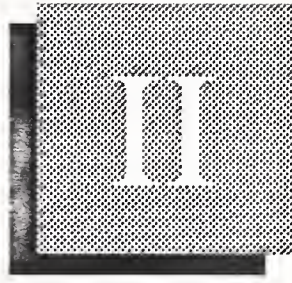
INPUT believes that LCS's business could be enhanced in two additional ways.

- DME is an exciting repackaging of remote processing services. It is likely that a relatively inexpensive PR program could be developed for LCS to get press coverage for DME.
- Disaster Recovery is one of the fastest growing segments of the processing services market. LCS has all the resources needed to enter it. This option should be investigated.

EXHIBIT I-4

Additional INPUT Recommendations

- Publicize Unique Attributes of DME Capabilities
- Investigate Suitability of Having Disaster Recovery Offering



LCS Profile



II. LCS Profile

A

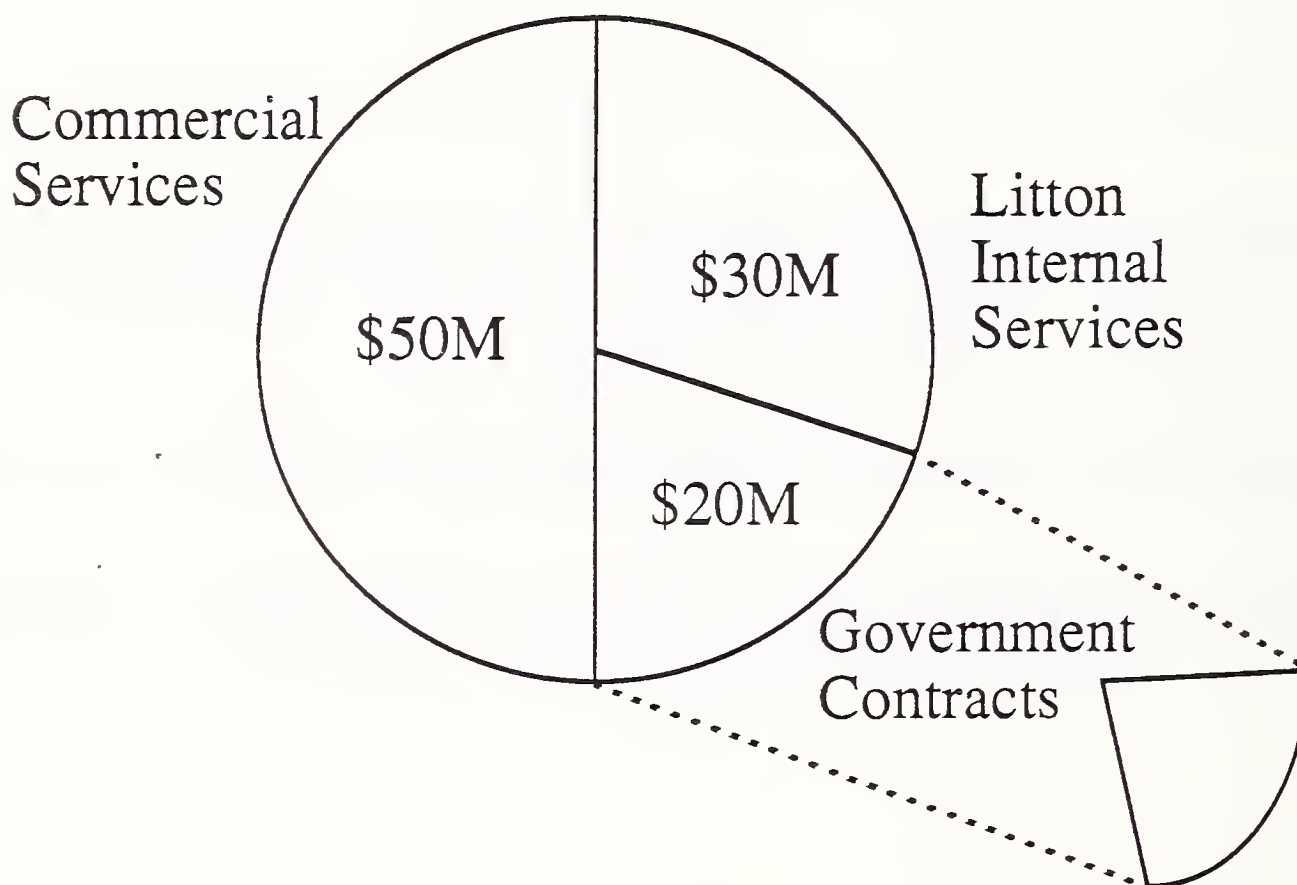
Overview

Litton Computer Services (LCS) provides processing services to commercial clients and state and local governments and professional services to the federal government. LCS also provides processing services support to its parent company, Litton Industries. LCS currently employs about 1,000 personnel, with approximately 800 in the U.S. and 200 in foreign locations.

LCS provides processing services to over 400 clients from data centers in Reston (VA) and Woodland Hills (CA). LCS's primary customers include software development firms, banks and financial service firms, and insurance companies.

Current LCS revenue was \$100 million dollars, for the fiscal year ending 7/31/87. Of this amount \$30M was attributable to Litton internal services. The remaining \$70 million was distributed as follows: \$20 million to government contracts and \$50 million to commercial services.

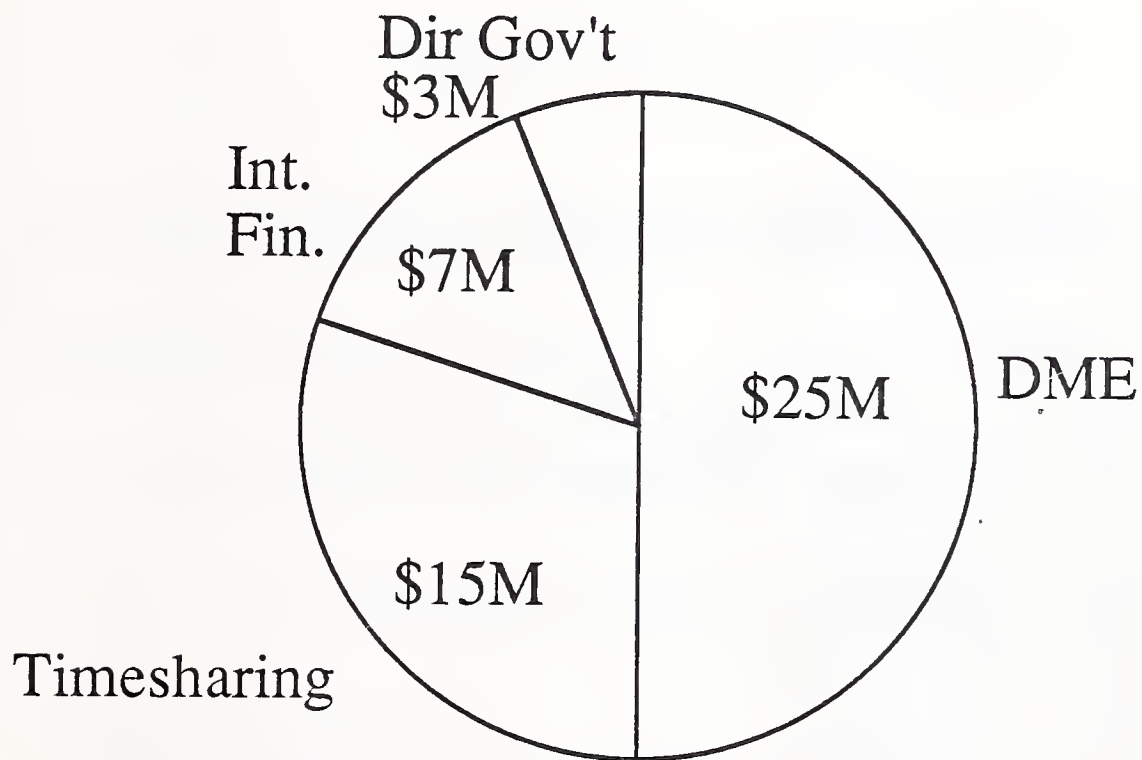
EXHIBIT II-1

Current LCS Revenue—\$100M

- Of \$100M Revenue, \$30M is Litton Internal Services.
- \$50M Is Attributed to Commercial Services—The Area Targeted for Growth.
- \$20M Is the Result of Government Contracts.

Commercial services encompass general timesharing (\$15 million), integrated financials (\$7 million), direct government (\$3 million), and processing facilities management, or dedicated machine environment (DME) (\$25 million).

EXHIBIT II-2

Commercial Services Revenue—\$50M

- \$25M Comes from DME Contracts.
- \$15M Attributed to General Timesharing Services.
- \$7M Results from Integrated Financials Products.
- \$3M Is Direct Government Revenue.

B**Dedicated Machine Environment (DME)**

Much of the success of LCS over the last five years is due to the DME product. This product offers a dedicated computing environment that provides a balanced, unrestricted approach to customers' management information requirements, which are constantly changing. LC state-of-the-art computing technology and up-to-date versions of software packages are always available to customers to answer the needs of their rapidly changing business environment.

Through the DME product the customer leases a dedicated percentage of LCS' computing resources at a fixed price.

EXHIBIT II-3**Key Advantages of DME**

- Eliminates Need for Customer System Programming and Administration Staff
- Cost Savings over Customer Purchase of Computer Equipment
- Ability to Inexpensively Upgrade or Reconfigure to Meet Changing Requirements
- No Construction Costs for Computer Facility
- Instant Availability to Increased Computer Resources
- IBM On-Site Hardware and Software Maintenance
- Automatic Software Updates, Maintenance, and Support
- Full Operations Support
- Expert Communications Staff

LCS has approximately 40 customers utilizing DME services. Contract size ranges from \$65K to \$3M+. Mid-contract renegotiations do not occur—overage rates are built into the initial contracts. Customers are allowed to add additional applications mid-contract, but they must remain in effect for the remainder of the contract.

DME business is targeted to companies with consistent processing needs that do not want to invest in the purchase of computer systems.

EXHIBIT II-4

DME Business Profile

Typical Contract Size	\$65K - \$3M+
Typical Contract Term	1 - 3 Years
Target Customer Revenue	\$50M - \$1B East Coast \$150M - \$400 M
Decision Maker	President, CFO, CEO, CIO, VP/Dir. MIS, Dir. Finance

LCS marketing strategy stresses complete understanding of customer requirements in both application and technical areas. Once a prospect has been identified, a technical team performs an on-site analysis of the customer's operation. This analysis gives LCS a thorough understanding of the customer's requirements, which will be reflected in the proposal.

EXHIBIT II-5

DME Marketing Strategy

- Front-Line Salesmen Identify Valid Prospects
- Technical Specialists Conduct In-Depth Analysis of Customer Operations and Requirements
- Thorough Understanding of Application Needs
- Complete Understanding of Computing Requirements

C

General Timesharing

LCS also offers general timesharing services as a commercial product. General timesharing services customers number approximately 300. The average annual customer expenditure is \$250K to \$4M. General timesharing is a market in which product distinction from the competition is difficult; however, LCS does stress advantages to its general timesharing offering.

EXHIBIT II-6

Key Advantages of General Timesharing

- Cost Savings through Shared Resources
- Immediate Availability and Flexibility
- Extensive Access to a Large Variety of Systems and Software
- Technical Expertise and Support
- Nationwide Data Network

General timesharing business is targeted to companies with varying processing needs that do not warrant the purchase of computer systems.

EXHIBIT II-7

General Timesharing Business Profile

Typical Contract Size	West Coast \$250K - \$4M East Coast \$250K - \$2M
Typical Contract Term	1 - 3 Years
Target Customer Revenue	\$7M - \$1B
Decision Maker	President, CFO, Controller, VP/Dir. MIS

The general timesharing marketing strategy is similar to other LCS products, with an analysis of the customer operation once the prospect has been identified.

EXHIBIT II-8

General Timesharing Marketing Strategy

- Front-Line Salesmen Identify Valid Prospects
- Technical Specialists Conduct In-Depth Analysis of Customer Operations and Requirements
- Understanding of Communication Needs
- Analysis of Work Migration Methodology

D**Integrated Financials**

Integrated financial products are offered by LCS through both the DME product and the general timesharing product. The financial products consist of MSA financial software packages. LCS also offers McCormick & Dodge, as well as Cullinet, financial applications.

LCS has developed its own training program for the MSA products and provides customer application support to add value to the MSA packages. MSA is paid a royalty for each LCS customer utilizing the MSA financial product.

LCS is preparing to offer a new proprietary financial product as an alternative to the MSA products. It is currently being installed in-house at LCS data centers for internal usage. It will be available for commercial use soon.

EXHIBIT II-9**Key Advantages of Integrated Financials**

- Access to Top Mainframe Financial and Accounting Software Packages
- Availability through General Timesharing or DME Products

Integrated financial business is targeted to companies that utilize either the general timesharing or DME products.

EXHIBIT II-10

Integrated Financials Business Profile

Typical Contract Size	\$175K - \$300K
Typical Contract Term	1 - 3 Years
Target Customer Revenue	\$100M - \$1B
Decision Maker	President, CFO, CIO, VP MIS

The marketing strategy for this product is in line with other LCS marketing efforts.

EXHIBIT II-11

Integrated Financials Marketing Strategy

- Front-Line Salesmen Identify Valid Prospects
- Financial Product Manager Analyzes Customer Financial Requirements
- Technical Specialists Conduct In-Depth Analysis of Customer Financial Processing Needs

E**Remote Facilities Management**

Remote facilities management is a new product that LCS is beginning to offer. It will consist of a functional processing environment consisting of hardware, software, communications and LCS personnel located at the customer site. LCS also provides a 24-hour help service and peak load processing at an LCS data center.

This is a new product offering for LCS. There are no current customers as of this time.

Advantages of this product are emphasized as decreased operating responsibilities for the customer.

EXHIBIT II-12**Key Advantages of Remote
Facilities Management**

- LCS Responsibility for System and Software Installation and Maintenance
- Elimination of Customer Expense for Technical Support Staff
- LCS Responsibility for
 - Requirements Analysis
 - Configuration Planning
 - Preinstallation Testing
 - Performance Capacity Monitoring

Remote facilities management business is targeted to companies that desire an on-site facilities management arrangement with a computer services company for a particular portion of their business.

EXHIBIT II-13

Remote Facilities Management Business Profile

Typical Contract Size	To Be Determined
Typical Contract Term	1 - 3 Years
Target Customer Revenue	\$10M+
Decision Maker	President, CFO, CEO, CIO, VP/Dir. MIS, Dir. Finance

Since this product is new, a fully developed marketing strategy has not been described. It is assumed that it will follow the marketing standards set by LCS for its other products.

F

LCS Summary

Litton Computer Services has experienced success in a mature, relatively flat market. This success is due primarily to the innovative repackaging of its general timesharing capabilities into a new DME product which can better serve the needs of timesharing customers.

The in-depth analysis of the customer operation, performed during the sales cycle, is a very strong aspect of the marketing strategy. This practice inspires a great degree of customer confidence in LCS' understanding of their application and processing requirements. This level of analysis is not typically conducted until after a contract has been signed.

EXHIBIT II-14

LCS Strengths

- Salesmen Emphasis on Locating Valid Prospects
- Extensive Use of Technical Staff for Customer Analysis
- Refinement of Processing Support
- Leveraging of Latest Computing Resources
- Innovative Packaging of Timesharing Capabilities

Some improvements could be made, primarily in the marketing strategy area, to combat certain LCS weaknesses. LCS should have a clear understanding of its competition in each of its product areas, and put into place effective marketing programs to compete with these companies.

EXHIBIT II-15

Possible Changes to LCS Marketing

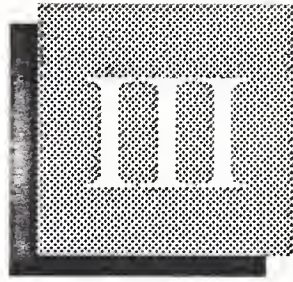
- Gaining Clear Understanding of Competition
- Improved Communication Programs

LCS desires to increase success by capitalizing on proven strengths and eliminating weaknesses. Additionally, LCS would like to penetrate new markets without incurring large capital expenses by utilizing new distribution channels for existing products.

EXHIBIT II-16

LCS Objectives

- Capitalize on Proven Strengths
- Grow without Incurring Large Capital Expenses
- Utilize New Distribution Channels for Existing Products



Competitive Analysis



III. Competitive Analysis

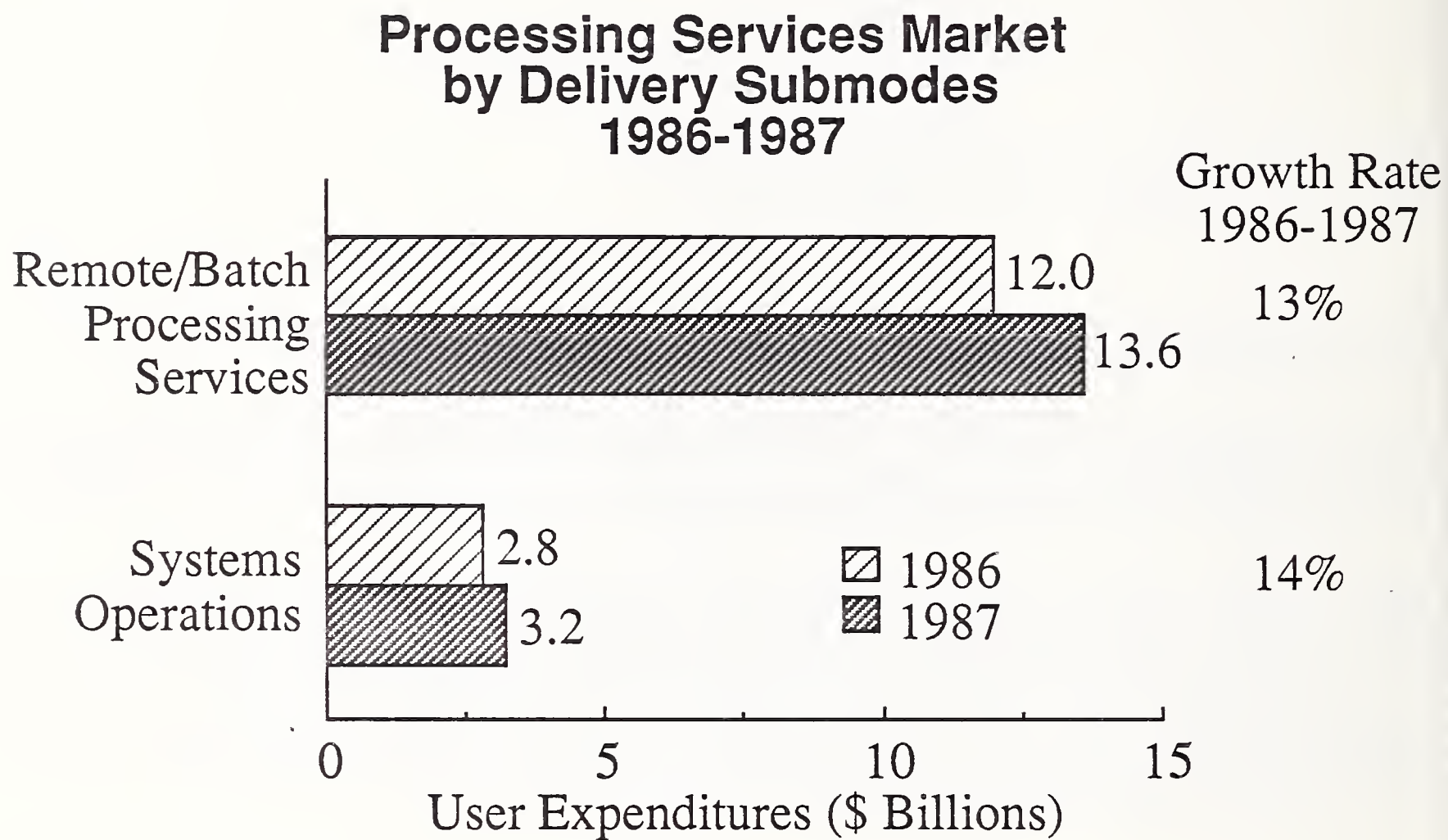
A

Processing Services Market

The services that LCS-IS provides fall into the general delivery mode of processing services that represents 25% of the information systems industry. Processing services has two submodes: remote/batch processing services, which includes transaction services, utility services, and other services; and systems operations, which is facilities management of vendor-owned systems.

Total processing revenues from all types of companies was \$17.0 billion in 1987 compared to \$14.9 billion in 1986. The growth rate for the total processing services market in 1987 was 14%. Within the total processing services market, the remote/batch processing services submode—defined as transaction processing, utility services, and other services—grew from approximately \$12 billion in 1986 to \$13.6 billion in 1987, reflecting an annual growth rate of 13%. The systems operations submode (facilities management of vendor-owned systems), as shown in Exhibit III-1, expanded from approximately \$2.8 billion in 1986 to \$3.2 billion in 1987, reflecting an annual growth rate of 14%.

EXHIBIT III-1



Forecast:

INPUT forecasts that the total market for processing services will increase from \$18.9 billion in 1988 to \$32.9 billion in 1993, for an CAGR of 12%. The growth rates from 1988 through 1993, as outlined below, reflect INPUT's projection of a continuation of a very gradual slowing of the annual growth rate for the processing services market over the next five years.

1987	14%
1988	12%
1989	12%
1990	12%
1991	11%
1992	11%

Driving forces that continue to positively impact growth in the total processing services market, shown in Exhibit III-2, include the following:

- **Current User Inertia to Change:** This reflects the fact that it is usually easier to continue using processing services than to develop an alternative in-house computer installation.
- **Outsourcing Trends:** To control costs or to obtain expertise not available in-house, there has been a trend in the past few years, particularly in certain industries such as the banking and other financial services areas, to buy outside services. The death of the processing services industries has been predicted for years, but the most recent outsourcing trends has been a strong countervailing force.
- **Disaster Recovery:** With the increasing recognition of the mission-critical status of many corporation data processing installations, there is increasing interest in disaster recovery capability. The fire at the First Interstate Bank computer center in Los Angeles, in particular, drew attention to this issue. Companies such as Comdisco and SunGard are offering this service and more companies are viewing it as a necessity.

EXHIBIT III-2

Processing Services Market—Driving Forces

- Current User Inertia to Change
- Outsourcing Trends
- Disaster Recovery

Inhibiting forces that will continue to negatively impact growth in the total processing services, shown in Exhibit III-3, include:

- **Micro/Mini Solutions:** In many cases micro- and mini-based computer solutions are more advantageously priced than the larger processor-based processing services. In addition, some very elegant software is being written for the smaller boxes.

- **Entry Costs:** It is expensive to get into the processing services business, which is discouraging new market entrants. An exception is companies such as Bechtel Corporation, which is entering this market to take advantage of its large installed computer base.
- **Market Maturity:** Processing services is a 20-year-old market. Most corporations that would like to use this delivery mode are already doing so. As such, it represents a slow-growth market environment.

EXHIBIT III-3

Processing Services Market—Inhibiting Forces

- Micro/Mini Solutions
- Entry Costs
- Market Maturity

B

Competitive Overview

1. Introduction

The conclusions regarding LCS competitors were derived by review of competitors' marketing material and INPUT vendor files and research material, as well as interviews with selected industry experts.

The competitive companies cover wide ranges of industry focus, revenue base, and geographical area.

2. Competition by LCS Product

Each of the named competitors competes with comparable product offerings in the specified LCS product areas.

The LCS DME product is comprised of a repackaging of general timesharing capabilities. The larger competitive firms, such as Bechtel, Inc., Boeing Computer Services Company, and McAuto, do not appear to distinguish between different levels of timesharing service. However, INPUT feels they have the resources to compete in the DME product area.

The DME product is the most innovative of all of the LCS products and has provided the largest contribution to LCS success over the past few years. LCS must position itself as unique in the DME offering to take advantage of new opportunities in this market.

EXHIBIT III-4

Competition by LCS Product

Company Name	GEN T/S	INT FIN	DME	Remote FM
Bechtel, Inc.	X			
Automatic Data Processing, Inc.		X		
Electronic Data Systems Corp.	X			X
Control Data Corp.	X	X		X
First Data Resources, Inc.	X			
Boeing Computer Services Co.	X			
Shared Medical Systems Corp.	X			
Planning Research Corp.	X			
Martin Marietta Data Systems	X	X		
McDonnell Douglas Information Systems Co.	X			
Computer Sciences Corp.	X			
MTech	X			
First Financial Management Corp.	X			
National Data Corp.	X			
GE Information Services Co.	X	X		
SunGard Data Systems	X	X		
Statistical Tabulating Corp.	X		X	
May & Speh, Inc.	X		X	
Genix Corp.	X		X	
On-Line Business Systems, Inc.	X		X	
Lockheed-Information Systems Group	X			
MCRB Computing Services	X		X	
Security Pacific Corp.	X		X	

3. Competition by Revenue

LCS competitors encompass firms with a varying level of revenue, from very large to much smaller than LCS. LCS Information Services current revenue, for non-captive sources is \$70,000,000.

EXHIBIT III-5

Competition Ranking by Revenue

Company Name	Revenue (\$ Millions)
Bechtel, Inc.	4,500 (total)
Automatic Data Processing, Inc.	1,041 (total)
Electronic Data Systems Corp.	635 (proc. svcs.)
Control Data Corp.	437 (proc. svcs.)
First Data Resources, Inc.	320 (total)
Boeing Computer Services Co.	300 (proc. svcs.)
Shared Medical Systems Corp.	274 (proc. svcs.)
Planning Research Corp.	265 (total)
Martin Marietta Data Systems	238 (proc. svcs.)
McDonnell Douglas Information Systems	252 (proc. svcs.)
Computer Sciences Corp.	208 (proc. svcs.)
MTech	186 (proc. svcs.)
First Financial Management Corp.	175 (total)
National Data Corp.	153 (total)
GE Information Services Co.	152 (proc. svcs.)
SunGard Data Systems	91 (total)
Statistical Tabulating Corp.	35 (total)
May & Speh, Inc.	30 (proc. svcs.)
Genix Corp.	25 (total)
On-Line Business Systems, Inc.	20 (total)
Lockheed Information Systems Group	19 (proc. svcs.)
MCRB Computing Services	16 (proc. svcs.)
Security Pacific Corp.	14 (proc. svcs.)

4. Competition by Geographical Area

LCS customers are concentrated around the LCS sales offices located in the following areas:

San Francisco Bay Area, CA
Los Angeles, CA
South Bay, CA
San Diego, CA
New York City, NY
Lexington, MA
Reston, VA

LCS competition consists of national firms, with market penetration across the U.S., as well as regional companies with marketing efforts concentrated in particular regions of the U.S. LCS sales and marketing must understand the distinction and strengths of its national and regional competitors.

EXHIBIT III-6

LCS National Competitors

Bechtel, Inc.
Automatic Data Processing, Inc.
Electronic Data Systems Corp.
Control Data Corp.
First Data Resources, Inc.
Boeing Computer Services Co.
Shared Medical Systems Corp.
Martin Marietta Data Systems
McDonnell Douglas Information Systems Co.
Computer Sciences Corp.
MTech
First Financial Management Corp.
National Data Corp.
GE Information Services Co.
SunGard Data Systems
Security Pacific Corp.
Lockheed Information Systems Group

EXHIBIT III-7

LCS Regional Competitors

Competitor Name	West	Central	East
Planning Research Corp			X
Statistical Tabulating Corp.	X	X	
Genix Corp.			X
On-Line Business Systems, Inc.	X		
May & Speh, Inc.		X	
MCRB Computing Services	X		

C**Competitive Profiles**

Company profile data of each of LCS's competitors is presented in the following tables, emphasizing company size, processing center information, industries served, products offered, and distribution channels.

The competitor profiles have been categorized into subsidiaries of diversified corporations, national computer services companies, and regional computer services companies.

EXHIBIT III-8

Competitive Profiles Subsidiaries of Diversified Corporations

Company	# of Employees	Data Centers	Distribution Channels
Bechtel, Inc.	17,500	Nationwide	Direct Marketing
Boeing Computer Services Co.	4,500	Vienna, VA-IBM, NAS Bellevue, WA -CDC, Cray Seattle, WA Kent, WA Wichita, KS Philadelphia, PA	Direct Marketing
Control Data Corp. (CDC)	42,300	Beltsville, MD - CDC, Cyber Rockville, MD-Cyber Cleveland, OH-IBM, Wang, CDC, Omega Campbell, CA-IBM Los Angeles, CA -IBM, HP St. Louis, MO-IBM Plymouth Meeting, PA -Univac	Direct Marketing
Lockheed	—	Nationwide	Direct Marketing
Martin Marietta Data Systems (MMDS)	5,500	Orlando, FL-IBM Denver, CO Washington, D.C.	Direct Marketing
McDonnell Douglas Information Systems Co. (McAuto)	11,000	St. Louis, MO, Dallas, TX, Fremont, CA-IBM, DEC, CDC	Direct Marketing
Security Pacific Corp. (SPAC)	3,933		Direct Marketing, Joint Product Development and Marketing, Dealers

EXHIBIT III-9

Competitive Offerings Subsidiaries of Diversified Corporations

Co. Name	Product	# Cust	(\$M) Revenue	Industry	Competitive LCS Product
Bechtel	project mgmt., 3-D modeling, electrical component tracking	n/a	4,500	electric utilities, oil, gas, paper industries, mfg, aerospace & defense com- munications	General Timesharing
BCS	engineering, math, spreadsheet, systems simulation & control, decision support, structural design, mfg resource planning, CAI	1,200	300	energy and mfg information services	General Timesharing
CDC		20,000 total	437	broadcasting, bank & fin svcs, mfg, legal & mktg services	Integrated Financials, General Timesharing, Remote Facilities Management
Arbitron Ratings	broadcast audience measure	6,000			
CDBC	(remote batch proc. svcs) acctg pkgs	12,000			
BIS	mgmt applic. syst— mktg, proc. mfg, & fin. mgmt.	n/a			
Credit Union Svcs	banking & financial pkgs	1,500			
EFT, Banking, ACTION Data Svc	banking & financial pkgs	150			

EXHIBIT III-9 (Cont.)

Competitive Offerings Subsidiaries of Diversified Corporations

Co. Name	Product	# Cust	(\$M) Revenue	Industry	Competitive LCS Product
CDC Quorum Systems	legal systems	300			
Lockheed ISG	flight plan., weather info., inventory ctl, purchasing, price cost analysis, CAD	n/a	19	aerospace, federal gov't, state gov't, municipal gov't	General Timesharing
MMDS	syst. integ. & proc. svcs., MAS mfg., MAS finan., MAS human resources	n/a	238	mfg, bank. & finance, insur., medical	Integrated Financials, General Timesharing
McAuto Health Systems Mfg & Eng Systems Network Systems Diversi- fied Info Sys	hosp. & finan. products CAE/CAD TYMNET mfg, ins., & commun. prod., credit/ check svc	467 75 1,300 n/a	— 159 187 250	mfg., health care, insur. retail, tele- communica- tions	General Timesharing
SPAC	finan. svcs., invest. svcs. acctg & secur. svcs, telecom- munications	n/a	14.1	finan., bank., ins., savings, mortgage bank., disaster recov. planning	Integrated Financials, General Timesharing

- Bechtel's primary emphasis is on engineering applications.
- The majority of Boeing's contracts are government-related.
- CDC is a current competitor in remote facilities management area.
- Lockheed concentrates primarily on government contracts—federal, state, municipal.
- Martin Marietta Data Systems should be a declining competitor except in federal government and integrated services contracts.
- Security Pacific Corp. enters into arrangement for joint development with software companies for financial applications, and then the product is jointly marketed. Security Pacific Corp. currently offers McCormick and Dodge financial packages and is considering MSA financial software.

EXHIBIT III-10

Competitive Profiles National Computer Services Companies

Company	# of Employees	Data Centers	Distribution Channels
First Financial Management Corp. (FFMC)	400 in prod. dvpmt.	66 Nationwide	Direct Marketing
Automatic Data Processing, Inc. (ADP)	21,000	Ann Arbor, MI-DEC New York City, NY -IBM, Amdahl Schaumburg, IL -Microdata 45 data centers throughout U.S. & Europe for employer & acctg. svcs.	Direct Marketing
Electronic Data Systems Corp. (EDS)	45,000	Richardson, TX, Dallas, TX, Plano, TX, Sacramento, CA, Camp Hill, PA, Warren, MI, Auburn Hills, MI, Herndon, VA -IBM NAS, Amdahl	Direct Marketing
SunGard Data Systems, Inc. (SUNGARD)	724	Chicago, IL-Tandem, IBM Philadelphia, PA-DEC, IBM, Tandem San Diego, CA-IBM	Direct Marketing
National Data Corp. (NDC)	3,200	Atlanta, GA, Lombard, IL, Cherry Hill, NJ, Boston, MA, Miami, FL, Reno, NV Toronto, Canada -Sperry, DEC Rockville, MD-Harris, DEC, Data General, Burroughs, Altos, Texas Instruments	Direct Marketing. Joint Marketing, Indirect Marketing

EXHIBIT III-10 (Cont.)

Competitive Profiles National Computer Services Companies

Company	# of Employees	Data Centers	Distribution Channels
Computer Sciences Corp. (CSC)	18,200	El Segundo, CA, Beltsville, MD, Toronto, Canada -Unisys, IBM Houston, TX-Amdahl, DEC Sacramento, CA -Amdahl Pittsburgh, PA-IBM Los Angeles, CA -Magnuson Bensenville, IL -Magnuson	Direct Marketing
First Data Resources Inc. (FDR)	6,700	Omaha, NE-NAS	Direct Marketing
GE Information Services Co. (GEISCO)	5,500	Cleveland, OH, Rockville, MD, Schenectady, NY, Amsterdam-Honeywell, IBM	Direct Marketing
Shared Medical Systems Corp. (SMS)	4,020	Malvern, PA-IBM	Direct Marketing

EXHIBIT III-11

Competitive Offerings National Computer Services Companies

Co. Name	Product	# Cust	(\$M) Revenue	Industry	Competitive LCS Product
FFMC	ATM proc., finan. trans- action proc., microform & laser print svcs.		1,041	banks, thrift, institutions, mortgage svcs., merchant svcs.	General Timesharing
ADP			1,041		
Employ. Svcs.	payroll and personnel	150,000		bank & thrift, brok. firms, payroll & fin., mfg., acctg., ins., auto dealers	Integrated Financials
Acctg. Svcs.	acctg svcs., wholesale/ distr. svcs., mfg. svcs.	16,000			
Financial Svcs.	brok., futures trading, bank. & thrift, ATM	1,300			
Collis'n Svcs.	claim estimat.	9 of top 10 insur. co's.			
Dealer Svcs.	acctg & spec. computing	8,000			
Network Svcs.	remote comp., on-site proc.	9,000			
EDS	info proc., syst. mgmt., commun. svcs.	—	1,125	bank., mfg., retail, ins. telecom., health care, credit union	General Timesharing, Remote FM
SunGard	disaster rcvy., acctg., employee ben. rptg., remote proc., invest. mgmt.	—	91	bank, finance, ins., mfg., distribution, utilities	Integrated Financials, General Timesharing

EXHIBIT III-11 (Cont.)

Competitive Offerings National Computer Services Companies

Co. Name	Product	# Cust	(\$M) Revenue	Industry	Competitive LCS Product
NDS	credit card svcs, corp. finance, health care, telemktg.	—	153	bank, finance, retail, petrol., medical, airlines, telephone ind.	General Timesharing
CSC	health & ins. syst., credit svcs., network svcs., mfg. & distr. systems	—	208	federal, state & local gov't., utilities, mfg., ins., bank & finance, retail, medical	General Timesharing
FDR	transaction svcs, tele- mktg svcs., cable systems svcs., cash mgmt. svcs., transp. svcs.	—	320	bank, finan., cable TV, direct mail., medical, air- lines, federal gov't.	General Timesharing
GEISCO	bank. systems, acctg & finan. appl., energy, focused sw	—	152	gen'l bus., mfg., bank., fin., energy, petroleum, order svc., distribution	General Timesharing, Integrated Financials
SMS	fin. mgmt., admin., patient care, physician's systems	400 med. pract. 8,000 phys.	274	medical	General Timesharing

- Payroll services utilizing 40 processing centers are the largest single form of ADP processing services.
- EDS is in the process of acquiring MTech Corporation, which provides processing services, software products, and professional services primarily to the banking and financial services industries.
- SunGard Data Systems, Inc. concentrates on disaster recovery services.
- CSC contracts are primarily government-related.
- FDR is the nation's largest third-party data processor of debit and credit card transactions.

EXHIBIT III-12

Competitive Profiles Regional Computer Services Companies

Company	# of Employees	Data Centers	Distribution Channels
Genix Corp. (GENIX)	130	Pittsburgh, PA-IBM, DEC, Tandem	Direct Marketing, Indirect Marketing
MCRB Computing Services (MCRB)	—	West Coast, U.S.-IBM	Direct Marketing
May & Speh, Inc. (M&S)	—	Downers Grove, IL -IBM, Prime	Direct Marketing
On-Line Business Systems, Inc. (OBS)	240	San Francisco, CA-IBM Santa Clara, CA-IBM	Direct Marketing, Indirect Marketing
Planning Research Corp. (PRC)	5,900	McLean, VA -NAS, DEC	Direct Marketing
Statistical Tabulating Corp. (STAT:TAB)	500	Chicago, IL-NAS, IBM, Xerox St. Louis, MO-IBM, Xerox	Direct Marketing

EXHIBIT III-13

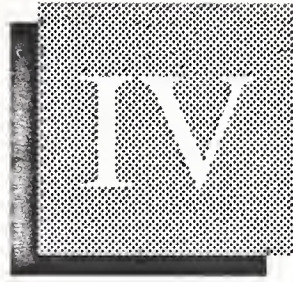
Competitive Offerings Regional Computer Services Companies

Co. Name	Product	# Cust	(\$M) Revenue	Industry	Competitive LCS Product
GENIX	remote computing svcs., telecom., mgmt. info. svcs., nat'l DB for Blue plans, DB analysis & dsgn., data ctr. dsgn.	46 (6,000 Users)	25	sfwe devl., primary metals, mfg., transport., energy, fin., distr., utilities, real estate, health care	DME, General Timesharing
MCRB	mail. list mgmt. & brok. IDMS/R migration tools, IDMS/R DB mgmt. & billing info.	—	16	marketing	DME, General Timesharing
M&S	mktg. tools, list mgmt., printing, elec. publishing, NCOA, media conversion	—	30	marketing	DME, General Timesharing
OBS	decision supp. DB and proj. mgmt. plan., stat anal.	—	20	syst. devl., energy & petrochem., human res., mfg, bank., finance, svcs.	DME, General Timesharing
PRC Realty Systems	multiple listing svcs., public records access, realtor acctg.	—	55.8	real estate brokerage	General Timesharing
STAT: TAB	disaster rcvy., data entry, DATAMAT (open computer time)	—	35	mfg., distr., acctg, stat. analysis, mktg., ins., printing	DME, General Timesharing

- GENIX has formed many arrangements with software companies to market their software applications utilizing GENIX data services.
- May & Speh, Inc. is a major supplier of DP services and direct marketing services.
- OBS does indirect marketing through companies that market products that run on OBS systems.
- STAT:TAB is introducing on-line interactive financial applications as a product offering.

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Distribution Channel Analysis



IV. Distribution Channel Analysis

A

Introduction

Section III described that the Processing Services Market has become mature and that most potential users of services are either using them now or very aware of their benefits.

INPUT forecasts that the rate of future industry growth will be relatively modest. However, it will be more than adequate to support the growth that LCS desires to achieve in coming years.

INPUT believes that LCS's success will come through efficient identification of new users of LCS services and through effective presentation of LCS capabilities to decision makers who can elect to employ LCS services.

INPUT also believes that the DME concept offers a very attractive repackaging of a concept that has been around for some time. It can be exploited effectively where traditional remote computing services have not been well received. It also allows LCS to establish wholesaler/distributor relationships which might produce "bulk" sales through the channels INPUT has identified.

B

LCS Products

LCS differentiates its products into four categories; General Timesharing, Integrated Financials, DME, and Remote Facilities Management. However, for the purposes of this study, INPUT believes there are only two product classes to be evaluated; computer processing/operation services and integrated financials.

- The three forms of computer processing/operation services are merely ways to repackage LCS's expertise to efficiently manage IBM computers, the associated operating systems and software, and the required communication technologies.

Since computer processing/operation services have the potential of producing greater revenue, these services were emphasized when exploring potential new distribution channels.

C

Evaluation Criteria

INPUT identified and evaluated 13 possible distribution channels that could be fruitfully pursued by LCS.

An objective set of evaluation criteria was established in order to rank the various channel options. The criteria allow for establishing importance ratings for each criteria.

- INPUT employs a system of numerical ratings, based upon a scale from 1 to 5, where 5 is the highest rating and 1 the lowest.
- Each alternative channel is then quantitatively evaluated based upon the objective criteria. They are then analyzed as to their fit to LCS's objectives, by using a cumulative rating that is the sum of the ratings on each criteria.

Following are the criteria INPUT established:

- *Understand LCS Products* - Do people in the potential channel have a good understanding of LCS products or services? Or can they be easily trained?
- *Aware of Need for LCS Products* - Can this channel clearly identify the needs for LCS's products, without the need for assistance from LCS sales people or management?
- *Dealing with Decision Makers* - Do the proposed agents have access to decision makers within the buying company?
- *Potential to Expand Own Products* - Can the channel reap the additional benefit of expanding its own products?
- *Potential Business Synergies* - Are there identifiable synergies that may result from a relationship with LCS?
- *Direct Financial Benefits* - In some way will the agent/channel experience improved financial results, beyond receipt of commissions or mark-ups? That is does the agent/channel have a financial interest in the purchaser of computer services?
- *Ability to Close Sale* - Does the channel have the requisite knowledge to initiate and consummate the sale without needing extensive assistance from LCS?
- *Low Investment Required* - Can LCS enter this channel without making a large investment? A rating of 5 means little investment is required, while a rating of 1 suggests that significant investment may be needed.
- *Potential Interest in Dealing with LCS* - What is the likelihood that this channel will be interested in offering LCS products?

D

Members of Computer Industry

Organizations participating in the computer industry provide opportunities as alternate distribution channels.

1. Data Processing Professional Service Firms

a. Overview

Companies involved in designing and implementing major new systems for major corporations.

Likely to be aware when a company needs additional computing capacity or need software resources that are not available in-house.

Could acquire LCS services in bulk and then remarket them to their clients, or act as an agent for LCS by identifying qualified customers for LCS services.

These firms possess a high level of technical data processing expertise.

b. Assessment of Fit

Very knowledgeable about how LCS resources could be employed.

LCS must target sales efforts to corporate and regional management of approximately 20 of the largest data processing services companies.

Potential strong associations with these vendors could develop, once initial resistance is overcome. However, these firms are likely to have extremely high expectations for service.

EXHIBIT IV-1

Suitability of DP Professional Service Company to the LCS Strategy

Understand LCS Products	5
Aware of Need for LCS Products	5
Dealing with Decision Makers	4
Potential to Expand Own Products	4
Potential Business Synergies	4
Direct Financial Benefit	2
Ability to Close Sale	4
Low Investment Required	5
Potential Interest in Dealing w/ LCS	3
Total Points	36

c. Analysis of Channel

LCS must demonstrate to the DP Professional Services Companies that the LCS role is complementary, rather than competitive.

One relationship with a leading DP Professional Services Company could lead to significant revenue from multiple clients.

EXHIBIT IV-2

Analysis of DP Professional Service Company as a Potential Channel

Pro	Con
<p>Aware of Changing Client Needs for Services</p> <p>Participating in Change</p>	<p>May View LCS as a Competitor</p>

EXHIBIT IV-3

Importance of LCS Capabilities to DP Professional Service Company

Large Computing Facility	2
Communication Resources	3
Technical Expertise	1
Access to Latest IBM Technology	4
On-Demand Resources	5
Economies from Shared Services	1
Financial Applications	1

d. Recommended Actions

Initiate contact with leading firms and explore relationships.

Identify areas where resistance is sensed, and develop strategies to overcome this resistance.

Offer DME concept as a way for the DP Professional Service Firm to mark up the service and possibly maintain its identity with the client.

2. Computer Leasing Companies

a. Overview

These companies tend to deal with computer users at a time when they are experiencing change.

LCS would hope to fill a temporary need, prior to delivery of a new computer from the leasing company.

A Leasing Company is willing to work with LCS only if it feels comfortable that the computer acquisition decision will not be jeopardized.

b. Assessment of Fit

Leasing company sales people normally have access to the key decision makers within the user organization.

LCS entry costs are probably limited to cultivating relationships with appropriate management at leasing companies, and establishing the business and financial relationship that responds to the needs of both companies.

Benefit to the Leasing Company accrues mostly from aiding a customer in solving transition problems.

EXHIBIT IV-4

Suitability of Computer Leasing Company to the LCS Strategy

Understand LCS Products	3
Aware of Need for LCS Products	4
Dealing with Decision Makers	5
Potential to Expand Own Products	2
Potential Business Synergies	3
Direct Financial Benefit	1
Ability to Close Sale	3
Low Investment Required	5
Potential Interest in Dealing w/ LCS	2
Total Points	28

c. Analysis of Channel

Not likely to produce large sources of recurring revenue.

Provides low-cost access to clients who might need LCS services.

EXHIBIT IV-5

**Analysis of Computer Leasing Company
as a Potential Channel**

Pro	Con
Solution to Transition Delays	LCS Viewed as Alternative to Leasing
Aware of Needs for LCS Services	Short-Term Revenue

EXHIBIT IV-6

**Importance of LCS Capabilities to
Computer Leasing Company**

Large Computing Facility	4
Communication Resources	2
Technical Expertise	2
Access to Latest IBM Technology	5
On-Demand Resources	5
Economies from Shared Services	2
Financial Applications	1

d. Recommended Actions

Test concept with Leasing Companies that LCS already deals with.

Develop ways to respond to resistance to working with LCS.

Explore DME private labeling as a means for leasing company to maintain its own identity.

3. Retired IBM Sales People**a. Overview**

At present a large supply of people exist who have served in various capacities at IBM, but are now retired. Many wish to pursue active business careers. They understand computer hardware and software technology, normally possess exceptional selling skills, and hold respected positions in their community.

These people have the ability to gain access to key decision makers in many companies.

They are financially independent, but do not wish to remain totally inactive from business pursuits.

They often seek part-time commitments working with prominent companies.

b. Assessment of Fit

These people possess all necessary technical and closing skills to represent LCS well.

People are available all over the United States.

There is a network of these retired executives that could provide LCS the names of good people in the right places.

EXHIBIT IV-7

Suitability of Retired IBM Sales People to the LCS Strategy

Understand LCS Products	5
Aware of Need for LCS Products	2
Dealing with Decision Makers	4
Potential to Expand Own Products	5
Potential Business Synergies	1
Direct Financial Benefit	5
Ability to Close Sale	5
Low Investment Required	3
Potential Interest in Dealing w/ LCS	5
Total Points	35

c. Analysis of Channel

Could represent a way for LCS to increase the size of its sales force without incurring significant increases in direct expenses.

Constant attention to recruiting new people will be required.

EXHIBIT IV-8

Analysis of Retired IBM Sales People as a Potential Channel

Pro	Con
Seasoned Sales People	Need to Constantly Recruit New Reps
Understand LCS Services	Possible Personal Distractions

EXHIBIT IV-9

Importance of LCS Capabilities to Retired IBM Sales People

Large Computing Facility	3
Communication Resources	3
Technical Expertise	3
Access to Latest IBM Technology	3
On-Demand Resources	3
Economies from Shared Services	3
Financial Applications	1

d. Recommended Actions

Select geography to test this concept on a trial basis.

Encourage local LCS sales people to seek out retired IBM sales people in their territories to assist with sales.

Develop compensation program that rewards performance and minimizes LCS investment.

4. CASE Software Vendors

a. Overview

CASE software vendors experience resistance to their sales campaigns, because of the high cost of their products. A relationship with LCS would permit a customer to begin a "trial period" with the CASE software. The offering could be modeled after LCS's integrated financial offering, i.e., software royalties can be added to the price of the processing services.

Access to the CASE vendor's clients could also provide leads for sales of other LCS computing services.

b. Assessment of Risk

LCS would incur minimal cost to enroll the CASE vendors.

CASE vendors also need innovative ways to make it easier for a customer to start using their products.

EXHIBIT IV-10

Suitability of CASE Software Companies to the LCS Strategy

Understand LCS Products	3
Aware of Need for LCS Products	4
Dealing with Decision Makers	3
Potential to Expand Own Products	3
Potential Business Synergies	3
Direct Financial Benefit	3
Ability to Close Sale	3
Low Investment Required	5
Potential Interest in Dealing w/ LCS	4
Total Points	31

c. Analysis of Channel

Revenue growth will come in relatively small increments and will tend to be of short duration.

CASE companies will benefit both directly and indirectly from the relationship with LCS.

EXHIBIT IV-11

Analysis of CASE Software Companies as a Potential Channel

Pro	Con
Helps Clients Minimize Start-up Cost with CASE	Temporary Revenue
Lowers Risk for CASE Customer	Complicates Decision to Employ CASE
Similar to Financial Application Model	

EXHIBIT IV-12

Importance of LCS Capabilities to CASE Software Companies

Large Computing Facility	3
Communication Resources	3
Technical Expertise	1
Access to Latest IBM Technology	3
On-Demand Resources	3
Economies from Shared Services	2
Financial Applications	1

d. Recommended Actions

Explore idea with several CASE companies to clarify how to present the offering to the market.

Assign marketing team to become knowledgeable about CASE products and the needs of users.

5. Retail Computer Companies**a. Overview**

Computer retailers often encounter sales situations where PC hardware and PC software packages do not solve the needs of their customers.

These companies have geographically distributed sales forces that could be trained to sell LCS Integrated Financial Products.

These products will need to employ PC workstations as entry devices. They should also easily link to packages like LOTUS 1-2-3, and various word processors for document preparation.

b. Assessment of Fit

This idea may be ahead of its time, but could be investigated through discussions with two or three of the largest computer retailers.

LCS must invest in marketing and training programs so that the sales process can be simplified. Computer retailers try to complete their sales by expending minimum amounts of time and effort on any one campaign, so selling must be made simple.

EXHIBIT IV-13

Suitability of Retail Computer Chains to the LCS Strategy

Understand LCS Products	2
Aware of Need for LCS Products	4
Dealing with Decision Makers	4
Potential to Expand Own Products	4
Potential Business Synergies	4
Direct Financial Benefit	4
Ability to Close Sale	2
Low Investment Required	2
Potential Interest in Dealing w/ LCS	2
Total Points	28

c. Analysis of Channel

If proper relationships are developed, there could be significant benefits to both partners.

Current retail sales people are accustomed to relatively simple sales campaigns. Imaginative packaging and marketing are essential.

EXHIBIT IV-14

Analysis of Retail Computer Chains as a Potential Channel

Pro	Con
Expands Retailer's Product Line	More Complex than Typical Sale
Solution when PC Software Can't Do the Job	May Need Sophisticated Marketing Program

EXHIBIT IV-15

Importance of LCS Capabilities to Retail Computer Chains

Large Computing Facility	3
Communication Resources	5
Technical Expertise	2
Access to Latest IBM Technology	2
On-Demand Resources	2
Economies from Shared Services	4
Financial Applications	5

d. Recommended Actions

Refine attributes of program before exploring with customers.

Clearly determine ways to help retailer increase his sales of hardware, PC software, and services.

E

Users/Distributors of Computer Services

Alternate channel options may also be offered by organizations that provide computer services.

1. Bank Holding Companies

a. Overview

The banking industry is under great pressure to control operating expenses. At the same time it is experiencing an increasing need for automation.

Bank Holding Companies often provide data processing services to affiliated banks, much in the same way that LCS provides services to Litton divisions and subsidiaries. They may lack the critical mass, as well as adequate numbers of technical personnel, to provide services as efficiently as LCS can.

Banking, as with most highly automated industries, is experiencing difficulty acquiring sufficient numbers of skilled data processing professionals to staff their computer organizations.

In non-branch banking states holding companies normally provide computer services to affiliated independent banks.

Computer requirements are normally predictable, thus making the DME approach attractive to these alliances.

b. Assessment of Fit

LCS may have great difficulty demonstrating knowledge of the banking industry. However, once overcome, significant potential revenues could be garnered.

Using the DME approach will allow holding companies to maintain control and generate profits through mark-ups or by repricing LCS services.

LCS' sales cycle will likely be prolonged, as the banking industry tends to be somewhat provincial in looking to outsiders for services.

LCS facilities and resources are ideally suited to the needs of small banks and bank holding companies.

EXHIBIT IV-16

Suitability of Bank Holding Company to the LCS Strategy

Understand LCS Products	5
Aware of Need for LCS Products	5
Dealing with Decision Makers	5
Potential to Expand Own Products	2
Potential Business Synergies	4
Direct Financial Benefit	5
Ability to Close Sale	3
Low Investment Required	3
Potential Interest in Dealing w/ LCS	2
Total Points	34

c. Analysis of Channel

The technical fit is attractive to both LCS and Bank Holding Companies. Unfortunately, tradition and desires to control computer resources may stand in the way of closing new sales.

However, because of the strong technical fit, and since LCS can point to its good track record with existing clients, it is worthwhile investigating this channel to understand how to make it work.

High-level, executive selling is required to penetrate this market.

EXHIBIT IV-17

Analysis of Bank Holding Company as a Potential Channel

Pro	Con
Need Large Distributed Computing Facilities	Normally Want to Control Own Computer Resources
Expanding Market for Computing	Very Demanding Customer

EXHIBIT IV-18

Importance of LCS Capabilities to Bank Holding Company

Large Computing Facility	5
Communication Resources	5
Technical Expertise	5
Access to Latest IBM Technology	5
On-Demand Resources	4
Economies from Shared Services	5
Financial Applications	1

d. Recommended Actions

Conduct initial needs assessment and strategic plan before undertaking marketing. Attempt to identify needed resources, proper product packaging and presentation, and the appropriate business arrangement to assure satisfactory financial rewards for all participants.

Obtain banking industry expertise to allow LCS to project itself as a knowledgeable supplier to the banking industry.

2. Franchises or Chains

a. Overview

Franchise organizations and chains have geographically dispersed operations that depend heavily upon data. Operating facilities feed sales data so that inventory control and financial reporting can be improved.

Computerization and automation is undergoing rapid change with new sophisticated point-of-sale methods now being employed. Often data processing is geared around midrange IBM computers linked by communication networks.

Traditionally these organizations have been unable to attract sufficient numbers of data processing professionals to effectively implement and operate the required computer facilities.

b. Assessment of Fit

LCS's communication and networking expertise should be particularly attractive to these organizations.

DME can be offered as a cost-effective alternative to expanding computer facilities and communication networks.

EXHIBIT IV-19

Suitability of Franchises or Chains to the LCS Strategy

Understand LCS Products	3
Aware of Need for LCS Products	3
Dealing with Decision Makers	4
Potential to Expand Own Products	4
Potential Business Synergies	3
Direct Financial Benefit	5
Ability to Close Sale	2
Low Investment Required	2
Potential Interest in Dealing w/ LCS	2
Total Points	28

c. Analysis of Channel

Creative pricing and cost justification will prove critical to closing sales.

Technical considerations should help to build a compelling sales justification.

The Integrated Financial Packages could also be used by these organizations.

EXHIBIT IV-20

Analysis of Franchises or Chains as a Potential Channel

Pro	Con
Increasing Use of Data Networks to Consolidate Financial Information	May Be Prolonged Sale
Can't Acquire Top Skilled Technical People	Complex Justification of ROI

EXHIBIT IV-21

Importance of LCS Capabilities to Franchises or Chains

Large Computing Facility	4
Communication Resources	5
Technical Expertise	4
Access to Latest IBM Technology	3
On-Demand Resources	3
Economies from Shared Services	4
Financial Applications	3

d. Recommended Actions

Target larger chains, which also have reasonably large inventory management requirements. Focus on organizations where LCS's large computing and communication skills come into play.

Develop sales strategy that adequately rewards the franchiser or parent for generating business for LCS.

3. Telephone Operating Companies

a. Overview

All Telephone Operating Companies are looking to aggressively expand their businesses beyond traditional lines. Many forms of computer related services are being explored.

Computer operations within these operating companies are generally weak. Therefore, LCS ought to seek an alliance where its strengths can be married to the market reach offered by the telephone operating companies.

b. Assessment of Fit

LCS has the resources to complement an operating company's entry into the computer services market.

Clear definition of "turf" issues and responsibilities will be the key to success.

EXHIBIT IV-22

Suitability of Telephone Operating Companies to the LCS Strategy

Understand LCS Products	2
Aware of Need for LCS Products	3
Dealing with Decision Makers	4
Potential to Expand Own Products	5
Potential Business Synergies	4
Direct Financial Benefit	2
Ability to Close Sale	2
Low Investment Required	4
Potential Interest in Dealing w/ LCS	3
Total Points	29

c. Analysis of Channel

As computer services and communication services become more closely linked, it will be necessary for providers of these services to develop alliances.

Top-level strategic selling by LCS will be necessary to establish these relationships. A long sales cycle can be expected, with strong initial resistance. However, the rewards for success will be great.

EXHIBIT IV-23

Analysis of Telephone Operating Companies as a Potential Channel

Pro	Con
Broad Access to Local Markets	In-House Data Staff May Want to Do it Themselves
Looking to Expand Products	Provincial Attitudes
Own DP Staff Not as Strong as LCS's	

EXHIBIT IV-24

Importance of LCS Capabilities to Telephone Operating Companies

Large Computing Facility	3
Communication Resources	3
Technical Expertise	3
Access to Latest IBM Technology	3
On-Demand Resources	3
Economies from Shared Services	3
Financial Applications	3

d. Recommended Actions

Undertake to understand current strategies of the Telephone Operating Companies.

Identify one or two companies with which to explore mutually beneficial relationships. Initial flexibility may be very important.

F

Well-Positioned Resources

Organizations that have access to potential users of LCS products may serve as alternate distribution channels.

1. Professional Service Companies

a. Overview

Consulting firms such as CPAs, strategic planners, and other general consultants normally know when their clients are intending to change their data processing operations.

Recently these organizations have been looking to expand their sources of revenue. Computer services, particularly systems development, are very common services they offer.

b. Assessment of Fit

In most cases consultants have access to client management at the highest level, which can be very conducive to closing sales.

Often they know when data processing services are needed, but are not technically proficient enough to be able to identify specific resource requirements.

EXHIBIT IV-25

Suitability of Professional Service Companies to the LCS Strategy

Understand LCS Products	3
Aware of Need for LCS Products	4
Dealing with Decision Makers	5
Potential to Expand Own Products	2
Potential Business Synergies	2
Direct Financial Benefit	1
Ability to Close Sale	3
Low Investment Required	4
Potential Interest in Dealing w/ LCS	3
Total Points	27

c. Analysis of Channel

The greatest impediment to these relationships are the potential for what may be perceived as a conflict of interest. Therefore, not all firms will be receptive.

The benefit from having a successful relationship make it worth the effort to explore.

EXHIBIT IV-26

Analysis of Professional Service Companies as a Potential Channel

Pro	Con
Great Contacts	Potential Conflict of Interest
Aware of Needs	Reluctance to Move Out of Traditional Offerings

EXHIBIT IV-27

Importance of LCS Capabilities to Professional Service Companies

Large Computing Facility	3
Communication Resources	3
Technical Expertise	4
Access to Latest IBM Technology	3
On-Demand Resources	4
Economies from Shared Services	3
Financial Applications	3

d. Recommended Actions

Make initial contacts at the partner level of some of the key firms. Possibly target firms that know of LCS capabilities because a common client relationship exists.

Develop ways to refute the conflict of interest argument.

2. Consultants in Troubled and Changing Industries

a. Overview

The cyclical nature of the U.S. economy means that there is always some industry going through a reversal. LCS's ability to help a company save money on data processing make it attractive at a time of contraction.

Normally access to key decision makers is difficult during these times.

Using consultants or "turn-around" specialists as agents to gain access to key decision makers should prove to be very effective.

Over time, the case histories and testimonials should prove valuable to future sales campaigns.

b. Assessment of Fit

LCS can allow clients to both reduce expenses and improve service. Budgets can also be made predictable by using the DME approach.

LCS should be able to develop a complementary, nonthreatening relationship with these consultants.

EXHIBIT IV-28

Suitability of Consultants in Troubled and Changing Industries to the LCS Strategy

Understand LCS Products	2
Aware of Need for LCS Products	5
Dealing with Decision Makers	5
Potential to Expand Own Products	5
Potential Business Synergies	3
Direct Financial Benefit	2
Ability to Close Sale	2
Low Investment Required	3
Potential Interest in Dealing w/ LCS	4
Total Points	31

c. Analysis of Channel

Since LCS will be betting on changing economic cycles it must constantly look for new channels and markets. However, the story to each should be the same.

Consultants specializing in turnarounds are unlikely to understand the computer business. So LCS must be prepared to help them identify appropriate cost-saving opportunities.

EXHIBIT IV-29

Analysis of Consultants in Troubled and Changing Industries as a Potential Channel

Pro	Con
Opportunity to Help Client Save Money	Need to Always Look for New Markets
Always New Opportunities	Finding Right People

EXHIBIT IV-30

Importance of LCS Capabilities to Consultants in Troubled and Changing Industries

Large Computing Facility	3
Communication Resources	4
Technical Expertise	3
Access to Latest IBM Technology	2
On-Demand Resources	5
Economies from Shared Services	5
Financial Applications	3

d. Recommended Actions

Analyze past "trouble" industries, like oil and gas or housing to determine how LCS might have pursued them.

Identify several industries currently experiencing cost pressures (Savings & Loan or Discount Stock Brokers) and undertake initial planning of sales and marketing activities.

3. Investment Community/Venture Capitalists

a. Overview

Although investors prefer to avoid getting directly involved in managing their portfolio companies, they often carry "cost saving" messages well.

When companies get into trouble the investors tend to look for any means to rapidly reduce costs.

b. Assessment of Fit

LCS's DME story could be made very interesting to investors and the investment community.

Being able to prove savings through case studies and testimonials can be very effective.

EXHIBIT IV-31

Suitability of Investment Community/Venture Capitalists to the LCS Strategy

Understand LCS Products	2
Aware of Need for LCS Products	4
Dealing with Decision Makers	5
Potential to Expand Own Products	1
Potential Business Synergies	1
Direct Financial Benefit	5
Ability to Close Sale	1
Low Investment Required	3
Potential Interest in Dealing w/ LCS	2
Total Points	24

c. Analysis of Channel

LCS cannot count on these people to do anything more than make appropriate introductions. However, when they are made the situation is likely to be prequalified.

Sales will be made based upon the personal relationship of the LCS sales representative and the person in the investment organization.

EXHIBIT IV-32

Analysis of Investment Community/Venture Capitalists as a Potential Channel

Pro	Con
Interested in Saving Money	Indirect Channel
Access to Decision Makers	Relationship Sale

EXHIBIT IV-33

Importance of LCS Capabilities to Investment Community/Venture Capitalists

Large Computing Facility	3
Communication Resources	3
Technical Expertise	3
Access to Latest IBM Technology	3
On-Demand Resources	5
Economies from Shared Services	5
Financial Applications	3

d. Recommended Actions

Prepare needed marketing material and sales presentation targeted to these people. Stress the financial benefits of DME.

4. Forms and Paper Companies

a. Overview

Sales people for forms companies make frequent sales calls on every computer installation in the country. They could help LCS identify new opportunities.

These sales people would see no threat to their own commissions, so long as they didn't lose account responsibility.

b. Assessment of Fit

Although forms and paper sales people have access to many accounts, they tend to be somewhat illiterate about computer technology. Therefore, care must be taken to involve LCS sales people early in the sales cycle.

A creative incentive plan or compensation program could help LCS improve its reach into accounts or industries it wishes to penetrate.

EXHIBIT IV-34

Suitability of Forms and Paper Companies to the LCS Strategy

Understand LCS Products	2
Aware of Need for LCS Products	3
Dealing with Decision Makers	3
Potential to Expand Own Products	4
Potential Business Synergies	3
Direct Financial Benefit	2
Ability to Close Sale	2
Low Investment Required	4
Potential Interest in Dealing w/ LCS	3
Total Points	26

c. Analysis of Channel

Interest in this relationship should be cultivated through well-conceived financial incentives.

EXHIBIT IV-35

Analysis of Forms and Paper Companies as a Potential Channel

Pro	Con
Broad Access to Computer Users	Low-Tech Sales People
Expanding Sales People's Product Line	Merely a Source for Leads

EXHIBIT IV-36

Importance of LCS Capabilities to Forms and Paper Companies

Large Computing Facility	2
Communication Resources	2
Technical Expertise	2
Access to Latest IBM Technology	2
On-Demand Resources	5
Economies from Shared Services	4
Financial Applications	5

d. Recommended Actions

Undertake initial investigatory conversations with selected firms. LCS should begin by entertaining discussions with vendors already dealing with LCS.

5. Data Center Design and Construction Companies

a. Overview

Firms involved in helping computer centers expand or move will often know when temporary additional capacity is needed. LCS should position itself as a supplier of these resources.

LCS could package "transition" or back-up services that could be sold by these companies.

b. Assessment of Fit

LCS services could be packaged as an option by these consultants.

Consultants of this sort can deliver well-qualified prospects.

EXHIBIT IV-37

Suitability of Data Center Design/Construction Companies to the LCS Strategy

Understand LCS Products	3
Aware of Need for LCS Products	5
Dealing with Decision Makers	5
Potential to Expand Own Products	2
Potential Business Synergies	3
Direct Financial Benefit	2
Ability to Close Sale	2
Low Investment Required	4
Potential Interest in Dealing w/ LCS	3
Total Points	29

c. Analysis of Channel

LCS business from any one customer will tend to be of short duration. So attention must be paid to constantly cultivating replacement business.

Selling costs will be low, but professional service costs will be high.

EXHIBIT IV-38

Analysis of Data Center Design/Construction Companies as a Potential Channel

Pro	Con
Access to Qualified Prospects	Temporary Revenue
Nonthreatening Relationship	Merely Source of Leads

EXHIBIT IV-39

Importance of LCS Capabilities to Data Center Design/Construction Companies

Large Computing Facility	3
Communication Resources	4
Technical Expertise	2
Access to Latest IBM Technology	2
On-Demand Resources	5
Economies from Shared Services	5
Financial Applications	1

d. Recommended Actions

Initiate discussions with several firms to assess the attractiveness of this sort of business for LCS.

Evaluate whether LCS is equipped to meet the needs of this type of client.

G

Summary

Of the 13 channels which INPUT evaluated, 5 had cumulative ratings above 30. They provide interesting options for LCS.

The remaining 8 may be of interest for LCS to pursue, for any of the following reasons:

- LCS may possess a level of knowledge about one or more of the potential channels to reduce risks or costs of pursuing it.
- LCS may determine that the entry cost is low enough that it outweighs the risk.
- LCS may identify other, non-revenue related benefits to make entry worthwhile.

In some cases INPUT suggests that further analysis may be required before a channel is pursued or rejected.

EXHIBIT IV-40

Summary of Alternate Channel Findings

DP Professional Service Companies	36
Retired IBM Sales People	35
Bank Holding Companies	34
CASE Software Companies	31
Consultants in Troubled and Changing Industries	31
Telephone Operating Companies	29
Data Center Design & Construction	29
Computer Leasing Companies	28
Retail Computer Chains	28
Franchises or Chains	28
Professional Service Companies	27
Forms and Paper Companies	26
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